Suncorp Covered Bond Trust

ABN 14 274 852 576

Financial report
for the financial year ended 30 June 2018

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STATEMENT OF COMPREHENSIVE INCOME

For the financial year ended 30 June 2018

	2018 $	2017 $
Revenue		
Interest income on secured loan	**90,355,282**	122,998,947
Interest income on cash and cash equivalents	**3,619,669**	2,424,140
Other income on secured loan	**2,097,799**	4,212,981
Total revenue	**96,072,750**	129,636,068
Expenses		
Interest expense	**(86,447,974)**	(113,080,553)
Cash manager and Administrative agent fee	**(1,864,832)**	(2,481,560)
Covered bond guarantee fee	**(172,684)**	(224,043)
Total expenses	**(88,485,490)**	(115,786,156)
Profit before distribution expense	**7,587,260**	13,849,912
Servicing fee	**(5,328,093)**	(7,090,172)
Residual income rights	**(2,259,167)**	(6,759,740)
Total distribution expense	**(7,587,260)**	(13,849,912)
Profit before tax	**-**	-
Income tax expense	**-**	-
Profit for the financial year attributable to the unitholders of the Trust	**-**	-
Total comprehensive income for the financial year attributable to the unitholders of the Trust	**-**	-

The statement of comprehensive income is to be read in conjunction with the accompanying notes.

STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

	Note	2018 $	2017 $
Assets			
Cash and cash equivalents		**644,153,302**	1,477,390
Secured loan income receivable		**2,542,767**	5,082,090
Related party receivable		**41,709,567**	91,443,220
GST receivable		**102,611**	130,358
Secured loan	3	**1,534,030,383**	2,925,710,345
Total assets		**2,222,538,630**	3,023,843,403
Liabilities			
Payables	4	**1,246,236**	1,034,526
Interest payable		**6,683,433**	7,693,151
Distribution payable		**4,608,941**	15,115,706
Interest-bearing liabilities	5	**2,210,000,000**	3,000,000,000
Total liabilities excluding outstanding units		**2,222,538,610**	3,023,843,383
Units on issue	6	**20**	20
Total liabilities		**2,222,538,630**	3,023,843,403
Net assets		**-**	-
Equity			
Unitholders funds		**-**	-

The statement of financial position is to be read in conjunction with the accompanying notes.

STATEMENT OF CHANGES IN EQUITY

For the financial year ended 30 June 2018

As the Trust has no equity, the Trust has not included any items of changes in equity for the current or comparative year.

STATEMENT OF CASH FLOWS

For the financial year ended 30 June 2018

	Note	2018 $	2017 $
Cash flows from operating activities			
Secured loan interest income receipts		**117,346,360**	149,943,510
Other operating income received		**5,371,418**	7,488,144
Interest paid on interest-bearing liabilities		**(103,588,035)**	(142,140,590)
Distribution paid		**(12,242,195)**	(11,784,473)
Fees paid		**(2,705,290)**	(3,506,591)
Cash advanced under secured loan		**1,428,493,654**	939,269,263
Net cash from operating activities	7	**1,432,675,912**	939,269,263
Cash flows from financing activities			
Repayment of interest bearing liabilities		**(1,090,000,000)**	(1,100,000,000)
Cash received from funding of interest bearing liabilities		**300,000,000**	100,000,000
Net cash used in financing activities		**(790,000,000)**	(1,000,000,000)
Net increase (decrease) in cash and cash equivalents		**642,675,912**	(60,730,737)
Cash and cash equivalents at the beginning of the financial year		**1,477,390**	62,208,127
Cash and cash equivalents at end of the financial year		**644,153,302**	1,477,390

The statement of cash flows is to be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

For the financial year ended 30 June 2018

1. Reporting entity

The Suncorp Covered Bond Trust (the **Trust**) is a Trust domiciled in Australia.

The Trust was established with the purpose of carrying on a business to purchase a cover pool of assets by equitable assignment and to guarantee the covered bonds issued by the parent entity, Suncorp-Metway Limited (**SML**). The ultimate parent entity of the Trust is Suncorp Group Limited.

The Trust was established by the Trust Deed between the Issuer, Seller and Servicer (SML), the Manager and Administrative Agent (SME Management Pty Limited) and the Covered Bond Guarantor (Perpetual Corporate Trust Limited, in its capacity as Trustee of the Trust) dated 10 May 2012.

In accordance with the Trust Deed, the Trust was constituted on 25 May 2012 following the receipt of $20, being the initial assets of the Trust.

The Trust entered into an Intercompany Loan Agreement with SML to fund the purchase of the cover pool by equitable assignment. The intercompany loan consists of a guarantee loan and demand loan, which represent the debts of the Trust.

The financial report was authorised for issue by the directors of SME Management Pty Limited (the **Directors**) on 13 August 2018. The registered office of the Manager is at Level 28, 266 George Street, Brisbane QLD 4000.

2. Basis of preparation

The Trust is a for-profit entity and its financial statements have been prepared on the historical cost basis unless the application of fair value measurement is required by relevant accounting standards.

In the opinion of the Directors, the Trust is not a reporting entity. The financial statements of the Trust have been prepared as special purpose financial statements for the sole purpose of fulfilling the requirements of the Trust Deed dated 10 May 2012.

Significant accounting policies applied in the preparation of the financial statements are set out in note 9. There have been no significant changes to accounting policies during the financial year. None of the new accounting standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2017 affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods.

The financial report is presented in Australian dollars which is the Trust's functional and presentation currency.

Where necessary, comparatives have been restated to conform to changes in presentation in the current year.

2.1. Use of estimates and judgments

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the amounts reported in the financial statements. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Estimates and underlying assumptions are reviewed on an ongoing basis. Where revisions are made to accounting estimates, any financial impact is recognised in the period in which the estimate is revised.

Significant estimates, judgments and assumptions are discussed in the following notes:

- impairment of secured loan (note 3)
- recognition of secured loan as a consequence of the sale of cover pool assets by SML not qualified for derecognition (note 9.6)

3. Secured loan

	2018 $	2017 $
Loans, advances and other receivables		
Residential mortgages	**1,534,030,383**	2,925,710,345
Total secured loan	**1,534,030,383**	2,925,710,345

The secured loan (also refer note 9.6) is secured by an equitable interest in the cover pool assets held by SML, which consists of loans, advances and other receivables. The balance represents the outstanding balance of the mortgage loans in the cover pool.

The reduction in residential mortgages for the financial year ended includes repurchased loans of $790,651,020. The loan repurchases have resulted in an increase of $400,028,112 in cash and cash equivalents and reduction of $390,000,000 in interest-bearing liabilities.

The collateral against the cover pool held by SML is in the form of mortgage interests over Australian residential property. Estimates of fair value are based on the value of collateral assessed at the time of origination, and generally are not updated except when a loan is individually assessed as impaired.

The potential for impairment of the secured loan reflects the potential impairment of the underlying cover pool assets managed by SML. Given the credit quality of the mortgage loans including the current level of collateral held against the cover pool, no assets are deemed impaired for the Trust as at balance date. No allowance for impairment is currently deemed necessary for the Trust (2017: $nil). Interest on all loans continues to be taken to income, including those which are past due but not impaired.

3.1 Impairment of mortgage loans

Impairment of a mortgage loan is recognised when there is reasonable doubt that not all the principal and interest can be collected in accordance with the terms of the mortgage loan agreement. The Trust uses the following method for calculating impairment:

(i) Specific impairment provisions

Impairment losses on individually assessed mortgage loans are determined on a case-by-case basis. If there is objective evidence that an individual mortgage loan is impaired then a specific provision for impairment is raised. The amount of the specific provision is based on the carrying amount of the mortgage loan, including the security held against the mortgage loan and the present value of expected future cash flows including amounts expected to be received from mortgage insurance. Any subsequent write-offs are then made against the specific provision for impairment.

(ii) Collective impairment provision

Where no evidence of impairment has been identified for mortgage loans, these mortgages loans are grouped together on the basis of similar credit characteristics for the purpose of calculating a collective impairment loss. Collective impairment provisions are based on historical loss experience adjusted for current observable data and mortgage insurance. The amount required to bring the collective provision for impairment to its required level is charged to the statement of comprehensive income.

4. Payables

	2018 $	2017 $
Servicer's fee	**283,230**	542,199
Cash manager fee	**70,808**	135,550
Administrative agent fee	**28,323**	54,220
Unapplied funds	**856,461**	293,516
Covered bond guarantee fee	**7,414**	9,041
Total payables	**1,246,236**	1,034,526

5. Interest-bearing liabilities

	2018 $	2017 $
Demand loan	**52,481,999**	179,963,568
Guarantee loan	**2,157,518,001**	2,820,036,432
Total Interest-bearing liabilities	**2,210,000,000**	3,000,000,000

6. Units on issue

	2018		2017	
	No. of units	$	No. of units	$
Residual income unit	**1**	**10**	1	10
Residual capital unit	**1**	**10**	1	10
Total units on issue	**2**	**20**	2	20

The Residual Income Unitholder has no right to receive distributions in respect of the Trust except:

- any amounts payable to the Residual Income Unitholder under clause 18.7 of the Trust Deed, the Priorities of Payments and the Security Trust Deed and when the Trust ends, a distribution of all of the remaining trust assets, subject to the rights of the Residual Capital Unitholder; and
- when the Trust ends subject to the amount of available funds, an amount equal to the subscription price of the Residual Capital Unit.

7. Reconciliation of cash flows from operating activities

	2018 $	2017 $
Net profit for the financial year	-	-
Change in assets and liabilities		
Decrease in secured loan	**1,391,679,962**	912,247,305
Decrease in trade and other receivables	**52,300,723**	37,856,250
Decrease in all payables	**(11,304,773)**	(10,834,292)
Net cash (used in) from operating activities	**1,432,675,912**	939,269,263

8. Auditor's remuneration

	2018 $	2017 $
KPMG Australia		
Audit of the financial report	**30,000**	30,000
Total auditor's remuneration	**30,000**	30,000

Fees for services rendered by the Trust's auditor KPMG Australia in relation to the statutory audit are borne by the income and capital unitholder, SML.

9. Significant accounting policies

The special purpose financial report has been prepared in accordance with the requirements of the Trust Deed, and the recognition and measurement aspects of all applicable Australian Accounting Standards (**AASB**) as issued by the Australian Accounting Standards Board.

The financial statements have been prepared in accordance with the disclosure requirements of AASB 101 *Presentation of Financial Statements*, AASB 107 *Statement of Cash Flows*, AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*, AASB 1048 *Interpretation of Standards*, AASB 1054 *Australian Additional Disclosures* and AASB 1057 *Application of Australian Accounting Standards.*

The financial statements do not comply with International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board.

The accounting policies set out below have been applied consistently to all financial years presented in these financial statements.

9.1. Revenue and expense recognition

Interest revenue and expense are recognised in profit or loss for all interest-bearing instruments measured at amortised cost using the effective interest method.

The effective interest method uses the effective interest rate to allocate interest income and expense over the relevant accounting period for the financial asset or liability. The effective interest rate is the rate that exactly discounts estimated future cash payments and receipts through the expected life of the financial instrument, or when appropriate, a shorter period to the net carrying amount of the financial asset or liability.

This calculation includes all fees and basis points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other discounts or premiums.

Interest income on the secured loan (refer note 9.6) comprises interest income from the cover pool, any fee income earned from the cover pool, and the net interest income/expense not separately recognised under the interest rate swap (refer note 9.7).

9.2. Income tax

The Trust is only liable to income tax to the extent that accumulated income is assessable. Under current legislation the Trust is not subject to income tax as the taxable income, including assessable realised capital gains are distributed in full to the unitholder.

9.3. Goods and services tax (GST)

Revenues, expenses and assets are recognised net of GST, except where the amount of GST incurred is not recoverable. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or the amount of expense.

Receivables and payables are stated with the amount of GST included.

9.4. Cash and cash equivalents

Cash and cash equivalents include cash on hand, cash on deposit, and money at call. They are measured at face value or the gross value of the outstanding balance.

9.5. Non-derivative financial assets

The Trust classifies its non-derivative financial assets as loans and receivables. Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. They are initially recognised when it becomes a party to the contractual provisions of the instrument at fair value plus any directly attributable transaction costs. Loans and receivables are subsequently measured at each reporting date at amortised cost using the effective interest method.

The secured loan is an example of a non-derivative financial asset recognised by the Trust. Refer to note 9.6 for further details on its accounting treatment.

9.6. Secured loan

Secured loan represents the Trust's interest in the cover pool assets purchased from SML by equitable assignment.

The sale of the cover pool assets from SML to the Trust does not qualify for derecognition in accordance with AASB 139 *Financial Instruments: Recognition and Measurement* because the sale is deemed to have failed to transfer substantially all the risks and rewards of ownership. Consequently, SML continues to recognise the cover pool assets and recognise a corresponding financial liability to the Trust on its statement of financial position. In turn, the Trust recognises a financial asset due from SML, being the secured loan, and a corresponding financial liability to SML under the Intercompany Loan Agreement.

The transfer of substantially all the risks and rewards of ownership is evaluated by comparing the entity's exposure, before and after the transfer, with the variability in the amounts and timing of the net cash flows of the transferred asset. An entity has retained substantially all the risks and rewards of ownership of a financial asset if its exposure to the variability of the future net cash flows from the financial asset does not change significantly as a result of the transfer.

Under the sale agreement, the Trust assumes any variability of principal cash flows from the cover pool, while the variability of the revenue cash flows, as a result of the interest rate swap agreement (refer note 9.7) and the ownership of the residual income unit (refer note 6), remains with SML.

As a result, after considering all reasonably possible variability in net cash flows, with greater weight being given to those outcomes that are more likely to occur, SML is deemed to have failed to transfer substantially all of the risk and rewards.

9.7. Derivative financial instruments

The Trust has entered into an interest rate swap with SML. The purpose of the swap is to align the basis of revenue from the cover pool assets purchased under equitable assignment from SML (refer note 9.6) to the interest expense under the debt. The interest rate swap converts the revenue receipts from the variable and fixed rate mortgages to a floating rate basis.

As a consequence of SML's sale of cover pool assets to the Trust not qualifying for derecognition (refer note 9.6), AASB 139 also denies the Trust from separately recognising derivatives that cause the failure for derecognition. Therefore, the Trust has not separately recognised the interest rate swap in the statement of financial position and no gains or losses have been recognised in profit or loss.

9.8. Impairment of financial assets

Financial assets, other than those measured at fair value through profit or loss, are assessed each reporting date to determine whether there is any objective evidence of impairment. If impairment has occurred, the carrying amount of the asset is written down to its estimated recoverable amount.

9.9. Non-derivative financial liabilities

Financial liabilities at amortised cost are initially recognised at fair value plus transaction costs that are directly attributable to the issue of the financial liability. Subsequent measurement is at amortised cost using the effective interest method.

9.10. Units issued

The units issued by the Trust satisfy the definition of a liability under AASB 132 *Financial Instruments: Presentation* and are accounted for as a financial liability at amortised cost.

9.11. New accounting standards and interpretations not yet adopted

AASB 9 *Financial Instruments*

AASB 9 was issued in December 2014. It addresses recognition and measurement requirements for financial assets and financial liabilities, impairment requirements that introduce an expected credit loss impairment model and general hedge accounting requirements. This standard becomes mandatory for the Trust for annual reporting periods from 1 July 2018.

The standard has to be applied retrospectively and the option not to restate our prior period financial statements is elected. The changes in recognition and measurement resulting from the adoption of AASB 9 will be recognised in 1 July 2018 opening retained earnings and other appropriate equity reserves.

Governance

The Trust forms part of the Suncorp Group project set up to implement the requirements of AASB 9 for all of the Suncorp Group's entities. It is governed through a steering committee involving divisional CFOs, CROs and Heads of Finance and was delivered by working groups with stakeholders from risk management, finance, data and transformation and the business units.

Transitional impact

After completing the assessment of changes in classification and measurement the impact on financial assets and liabilities as at 30 June 2018 is immaterial for the Trust. Where applicable, the impact will be reported as part of the transitional disclosures in 30 June 2019.

AASB 15 *Revenue from Contracts with Customers*

AASB 15 was issued in December 2014 and provides a single comprehensive model for revenue recognition based on the satisfaction of performance obligations and additional disclosures about revenue. It replaces AASB 118 *Revenue*, AASB 111 *Construction Contracts*, and related interpretations. This standard will become mandatory for the Trust's 30 June 2019 financial statements.

The Suncorp Group is in the process of assessing the impact of adoption of the standard. It is available for early adoption but has not been applied in this financial report.

10. Subsequent events

There has not arisen in the interval between the end of the financial year and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Trustee of the Trust, to affect significantly the operations of the Trust, the results of those operations, or the state of affairs of the Trust in future financial years.

TRUSTEE'S REPORT

For the financial year ended 30 June 2018

The financial statements for the financial year ended 30 June 2018 have been prepared by the Trust Manager, SME Management Pty Limited, as required by the Trust Deed.

The auditors of the Trust, KPMG, who have been appointed by us in accordance with the Trust Deed, have conducted an audit of these financial statements.

A review of the operations of the Trust and the results of these operations for the financial year ended 30 June 2018 is contained in the Manager's Declaration.

Based on our ongoing program of monitoring the Trust, we believe that:

(a) the Trust has been conducted in accordance with the Trust Deed; and

(b) the financial report has been appropriately prepared and contains all relevant and required disclosures.

In making this statement, the Trustee has relied upon information, representations and warranties provided by the Manager.

We are not aware of any material matters or significant changes in the state of affairs of the Trust occurring up to the date of this report that require disclosure in the financial statements and the notes thereto that have not already been disclosed.

Signed for and on behalf of

Perpetual Corporate Trust Limited

Nathan Gale
Authorised Officer
Perpetual Corporate Trust Limited

Sydney

13 August 2018

MANAGER'S DECLARATION

For the financial year ended 30 June 2018

Review of operations

The Trust's net profit from operating activities before distribution expense for the financial year ended 30 June 2018 is $7,587,260 (2017: $13,849,912).

Declaration

In the opinion of the Manager of the Suncorp Covered Bond Trust:

(a) the financial statements and notes, set out on pages 2 to 11, present fairly, in all material respects, the financial position of the Trust as of 30 June 2018 and its financial performance and its cash flows for the period then ended in accordance with the accounting policies described in note 9 to the financial statements;

(b) the Trust has operated during the financial year ended 30 June 2018 in accordance with the provisions of the Trust Deed dated 10 May 2012; and

(c) there are reasonable grounds to believe that the Trust will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of the directors of the Manager, SME Management Pty Limited

Director ALANA BAILEY
SME Management Pty Limited

Brisbane

13 August 2018